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# Ecuador's New Administration: Challenges and Prospects

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An Intelligence Assessment

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ALA 84-10082  
August 1984

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## **Ecuador's New Administration: Challenges and Prospects**

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**An Intelligence Assessment**

This paper was prepared by [ ] Office  
of African and Latin American Analysis, with a  
contribution from [ ] ALA. It was  
coordinated with the Directorate of Operations. [ ]

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**Ecuador's New Administration:  
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**Key Judgments**  
*Information available  
as of 1 August 1984  
was used in this report.*

The new conservative administration of President Leon Febres-Cordero faces an array of serious, interrelated problems, the most difficult of which is the struggling economy. He has inherited high inflation and unemployment, depressed manufacturing and construction sectors, and a foreign debt service burden that will consume 35 percent of export earnings this year.

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Rising interest rates and a continued slump in the market for oil—one of Ecuador's principal exports—will plague Febres-Cordero's efforts to improve the country's external accounts. Meanwhile, the stringent, free market adjustment measures he promises to employ to foster recovery in the domestic economy will produce negative political repercussions, such as labor unrest and congressional obstructionism. His plans to cut basic commodity subsidies, decrease regulation, and liquidate state monopolies will leave him open to attacks from opponents on the center-left and left, who control a majority of the seats in Congress. The President's own coalition—six conservative groups out of Ecuador's legally registered parties—is only a loose union.

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Leftist subversive groups—relatively new to Ecuador—hope that Febres-Cordero's conservative policies will swell the pool of alienated youth and leftists from which they draw recruits. Armed terrorist groups—including members of the Alfaro Vive Carajo ("Alvaro Lives, Damn It" or AVC) organization and militants from the Ecuadorean Socialist Revolutionary Party—are currently small

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In attacking these problems, Febres-Cordero has a number of advantages:

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- Foreign bankers are reported to be pleased with his plans for economic recovery, and this will improve the chances for new lending and foreign investment.
- His economic philosophy and background as a businessman will garner strong political support from Ecuador's private sector.
- The conservative armed forces, according to the US defense attache, solidly favor the administration's political and economic programs and its pro-US stance in foreign affairs.
- The President's political skills and charismatic style—always important considerations in Ecuador's fragmented political environment—will enable him to retain substantial popular backing.
- Febres-Cordero's opponents are not united, ideologically or otherwise, and they are vulnerable to a variety of political carrots and sticks that are at the President's ready disposal.

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[REDACTED]

We believe Febres-Cordero will marshal these assets sufficiently well to keep opposition activity at controllable levels at least during his first year in office and thus continue the consolidation of Ecuador's five-year-old democracy. We believe he will act promptly on economic matters while foreign lenders are sympathetic and before domestic opponents can organize their forces. Even under favorable circumstances, however, he will have recurring difficulty, in our view, meeting foreign debt payments, keeping Ecuador in compliance with IMF criteria, and paying for imports to reactivate the industrial sector. [REDACTED]

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We expect the President to use populist tactics—such as low-cost subsidized housing and job-creation programs—as well as patronage and legal sanctions to keep labor and leftist political challenges under control. We judge that security force countermeasures and public hostility toward violence will prevent the nascent terrorist movement from growing quickly enough to threaten the government's stability over the next two years or so. [REDACTED]

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US interests in Ecuador will be served by the new administration's intention to follow a moderate course in foreign affairs and to support US positions in international forums. This does not necessarily assure that Febres-Cordero will avoid cooperation with some of the more aggressive Latin American debtors at regional meetings on the debt question. Despite his nationalistic rhetoric, we doubt that Febres-Cordero will provoke tensions over Quito's border dispute with Peru. He probably will not reverse his predecessor's renewal of diplomatic ties with Cuba, since it could rally his leftist political opponents, unless he receives solid evidence that Havana is abetting terrorism against his government. [REDACTED]

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## Ecuador's New Administration: Challenges and Prospects

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### Introduction

The inauguration of President Leon Febres-Cordero on 10 August was the first electoral transfer of power between civilians in Ecuador since the military restored democracy five years ago.<sup>1</sup> As a conservative, Febres-Cordero will be freer from military coup plotting than his leftist predecessors, but he will face other kinds of political challenges, particularly from labor and leftist political parties. These will complicate efforts to attack his administration's biggest problem—the struggling economy.

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As Latin America's third-largest oil exporter and an OPEC member, Ecuador characteristically has been insulated from economic troubles. A series of factors—the slump in the oil market, the maturing of excessive short-term borrowing by Quito, mismanagement and heavy public-sector spending by a statist-oriented administration—brought on an economic downturn two years ago. Notwithstanding Febres-Cordero's campaign promises to remedy the situation quickly, we judge that the obstacles are too great to overcome this year:

- Central Bank projections for 1984 indicate that GDP will grow only about 2 percent.
- Service on the \$8 billion debt will consume 35 percent of export earnings this year, creating a goods-and-services deficit.
- Inflation currently is running at a 45- to 50-percent annual level.
- Unemployment is near 15 percent, while underemployment is close to 50 percent.
- The sucre is overvalued and, according to a respected US financial journal, only about one-fourth of all currency transactions take place on the official market.

### The Magic of the Marketplace

Unlike many of his presidential counterparts in Latin America, Febres-Cordero is a firm adherent of free market economic policies. Throughout his presidential

campaign, he pledged to resort to the “magic of the marketplace” to spur economic growth. According to the US Embassy, he believes that fiscal austerity, coupled with free market monetary exchange and credit policies, will restore domestic and foreign business confidence, resuscitate stagnant industrial production, and revive exports. Determined to reduce the government's role in the economy, Febres-Cordero also plans to cut or eliminate basic commodity subsidies, decrease regulation, liquidate state monopolies, and reorganize the state petroleum industry. To offset layoffs arising from projected budget cuts, he intends to use expected foreign aid to increase employment in construction through government-subsidized low-cost housing programs.

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<sup>1</sup> President Jaime Roldos, who was inaugurated in 1979, died in a plane crash in 1981 and his term was finished by Vice President Osvaldo Hurtado.

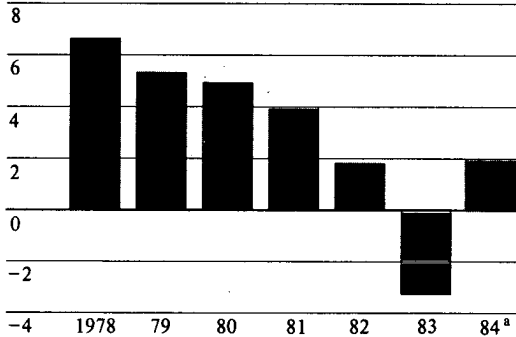
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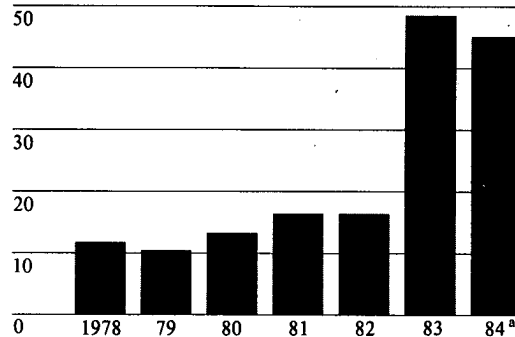
## Ecuador: Selected Economic Indicators, 1978-84

Note scale changes

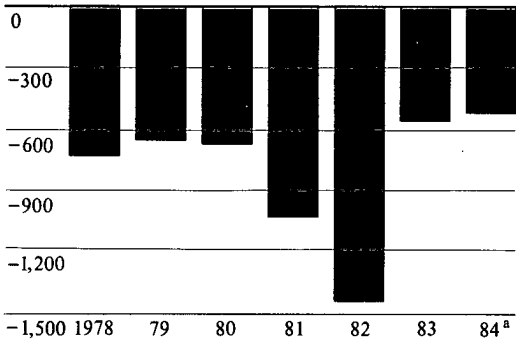
**Real Economic Growth**  
Percent



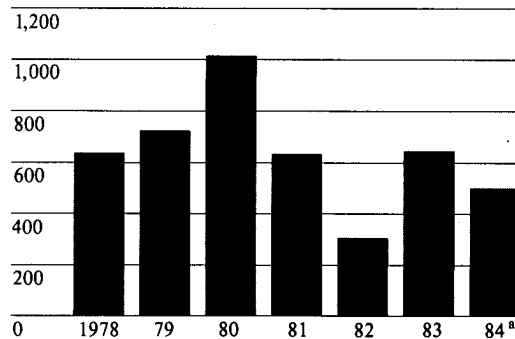
**Consumer Price Growth**  
Percent



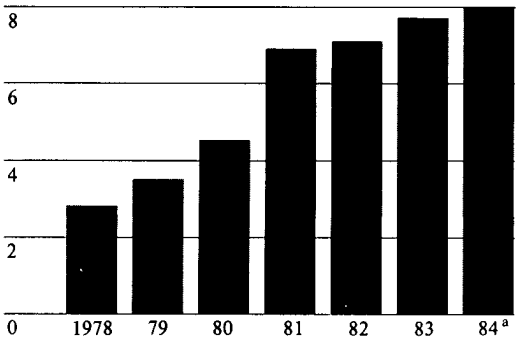
**Current Account Balance<sup>b</sup>**  
Million US \$



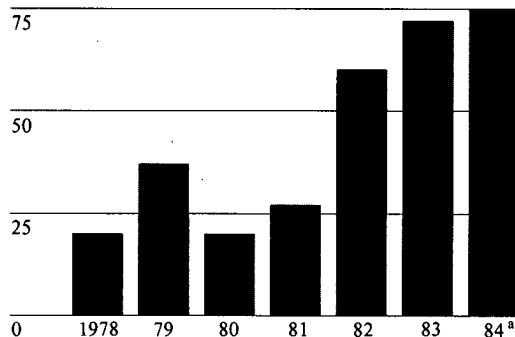
**Foreign Exchange Reserves, End of Year**  
Million US \$



**Total Debt**  
Billion US \$



**Debt-Service Ratio**  
Percent



<sup>a</sup> Estimated.

<sup>b</sup> Excluding official transfers.

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In addition, Febres-Cordero plans to court foreign investors. At a meeting in New York in June with Ecuador's major creditors, he publicly welcomed foreign investment in mining, petroleum exploration and recovery, agroindustry, export industries, and tourism. According to press reports [redacted]

[redacted] he not only favors the abandonment of many Andean Pact trade and investment restrictions but prefers the strengthening of existing bilateral arrangements over regional economic initiatives.

Despite these positions, Febres-Cordero is openly critical of Ecuador's agreements with the international financial community and publicly has promised to negotiate more favorable terms. [redacted]

### The Political Scene

Febres-Cordero faces a fragmented political system. The US Embassy reports that, although the overall political spectrum has shifted leftward since the restoration of democracy in 1979, the established parties and numerous labor groups run the gamut from far right to far left. Beneath the rhetoric of populism, however, politics is essentially an elitist activity with personalism and regionalism blurring ideological lines. This complicates consensus building and creates an environment in which a president's personal alliances often count for more than his ideological orientation. [redacted]

Febres-Cordero, having garnered 51.5 percent of the total valid vote in May, is backed by a loose coalition of six conservative parties, which, despite similar ideologies, have diverse histories and traditions. For example, the President's Social Christian Party is relatively new, unabashedly procapitalist and free market oriented, and closely tied to powerful business interests in Guayaquil, the country's largest city and commercial hub. Three other small parties serve primarily as political vehicles for former presidents.

### Ecuador's Political Parties

#### Right-to-Center

- *PSC (Social Christian Party): party of President-elect Febres-Cordero*
- *PC (Conservative Party)*
- *PRN (Revolutionary Nationalist Party)*
- *CID (Democratic Institutional Coalition)*
- *PNV (Velasquista National Party)*
- *PL (Liberal Party or Radical Liberal Party)*

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#### Center-to-Left

- *FRA (Alfarist Radical Front)*
- *CFP (Concentration of Popular Forces)*
- *APRE (Revolutionary Popular Action Party)*
- *PD (Democratic Party)*
- *PRE (Ecuadorean Roldocist Party)*
- *PCD (People, Change and Democracy)*
- *DP (Popular Democracy)*
- *ID (Democratic Left): party of defeated presidential candidate Rodrigo Borja*

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#### Far-Left

- *MPD (Democratic Popular Movement)*
- *FADI (Broad Leftist Front)*
- *PSE (Socialist Party)*
- *PSRE (Ecuadorean Socialist Revolutionary Party)*

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The two other parties in the coalition—the Conservatives and the Liberals—are longtime rivals who have banded together to resist the center-left. Despite the obvious boost to their political fortunes resulting from association with Febres-Cordero, we judge that most of these conservative parties will continue to hold a minority position in the political system. [redacted]

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In contrast, an amorphous center encompasses the majority of the electorate, with parties ranging from social democratic to centrist populist. The Democratic Left, which nominated Febres-Cordero's presidential opponent, Rodrigo Borja, is the best organized and strongest of all the parties in this category. A largely

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middle-class, social democratic organization affiliated with the Socialist International, the Democratic Left advocates social programs and state intervention in a mixed economy. It has eclipsed the two center-left parties that supported Febres-Cordero's predecessor, President Hurtado. Two remaining centrist groups are potent, coastal-based populist parties that occupy a pivotal position between the center-left parties and Febres-Cordero's conservative front. [REDACTED]

The parties of the far left also increased their political base in the last election. Although the Socialist Party and its allies fared poorer than expected, the two principal groups—the Maoist Democratic Popular Movement and the Moscow-line Broad Leftist Front—achieved modest gains. The Maoist candidate garnered a significant number of votes from university students, poor neighborhoods, peasants, and some civil servants. Both parties also performed well in congressional and municipal contests and, taken together, the presidential candidates of the three far left parties garnered a respectable 12 percent of the popular vote. [REDACTED]

Labor is a volatile, and potentially powerful, political force. Traditionally rent by bitter ideological and personal disputes, this sector has demonstrated greater unity over the past two years, according to the US Embassy. The Unified Workers Front, an umbrella organization formed in the late 1970s, was stirred to action by the austerity imposed by the Hurtado administration. Its two principal components—a Communist-dominated confederation and a major democratic organization—laid aside their differences and mobilized large numbers of trade unionists, peasants, and students in strikes last year. Although the Front's effectiveness was reduced somewhat when the powerful transport federation dropped out in 1981, the US Embassy reports that the organization nevertheless emerged as a major disruptive element in labor relations during the Hurtado administration. [REDACTED]

#### Political Challenges

Febres-Cordero's election probably will prompt a major opposition offensive against the new administration by parties of the center-left and left, Febres-Cordero apparently faced incumbent hostility during the transition process. [REDACTED]

Febres-Cordero's first political test probably will come from the newly elected Congress, where his conservative backers are a distinct minority. According to the US Embassy, in early July the Democratic Left, which has more seats than the entire bloc supporting the new President, joined with six other center-left and leftist parties (including both the Moscow-line and Maoist Communist party organizations) to form the "Progressive Democratic Front." This coalition, which will account for 42 of 71 congressional seats, reportedly intends to elect the president of the Congress, control committee assignments, and oppose Febres-Cordero's legislative program, according to the US Embassy. [REDACTED]

Organized labor, however, could be the new President's most serious political challenge. Although recent, marginal improvements in the economy and the lameduck status of the previous administration slightly dampened labor's activism, persistent inflation and continued high unemployment virtually ensure continued unrest. Moreover, labor confederations are likely to be even more hostile to Febres-Cordero's conservative-oriented policies—particularly the proposed austerity measures—than the leftist political parties. Promised cuts in the entrenched bureaucracy will alienate the important public employees federation, but more serious labor ferment probably would result from any government attempt to eliminate or reduce long-established subsidies on basic commodities. A cutback in the gasoline subsidy, for example, would

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anger the powerful Ecuadorean Drivers Federation and might prompt a strike by the 80,000-member independent transport workers guild, which could effectively paralyze the transportation system. [REDACTED]

#### **The Subversive Threat**

We believe that the new administration also will face a growing subversive threat from the far left. Ecuador has been free from terrorist or insurgent activity in the past, except for instances of Colombian guerrilla forces transiting or training in northern Ecuadorean provinces. During the past year, however, a radical terrorist group called Alfaro Vive Carajo ("Alfaro Lives, Damn It" or AVC) began a terrorist campaign that has included seizures of radio stations, some bank robberies, and probably the May 1984 bombing of the US Embassy. The group—apparently composed of present and former student activists—is still very small but seems well organized and highly disciplined. In addition, the US Embassy reports that the terrorists may have links with some of the political parties of the radical left and perhaps with Cuban officials in Quito. [REDACTED]

At present, the AVC's capabilities appear to be limited. The group recently suffered a major setback when police captured 11 members—including the reputed AVC leader. This apparently has not shaken the group's resolve. Ecuadorean authorities believe it may launch an attack to free its imprisoned members, [REDACTED]

In our judgment, the Ecuadorean Socialist Revolutionary Party (PSRE)—a small, radical leftist organization with little electoral support—could prove more threatening than the AVC in the long run because of its established university fronts and Cuban backing. [REDACTED]

#### **The New President's Assets**

For his part, Febres-Cordero faces these challenges with a number of assets. He can count on support from two powerful, conservative domestic institutions—the military and the business community—that opposed his left-of-center predecessors. As a result, the tensions and occasional coup plotting that characterized executive-military relations under former Presidents Roldos and Hurtado are unlikely during Febres-Cordero's presidency. According to US defense attache reporting, the officer corps is pleased with his election and expects him to promote closer military ties to the United States. Moreover, we believe that the armed forces will assist the administration in maintaining law and order. [REDACTED]

The President's free-market economic initiatives will draw additional support from his former colleagues in the commercial sector, according to the US Embassy. A self-made millionaire, Febres-Cordero has close ties to numerous business leaders who have expressed privately and publicly their backing for him. This support is buttressed by the fact that he is a product of the Guayaquil business world. [REDACTED]

Finally, Febres-Cordero's considerable political acumen and personal appeal are an important asset. For example, during the presidential campaign, the charismatic and flamboyant candidate expertly wooed votes away from his lackluster opponent. The US Embassy reports that, as a Congressman, Febres-Cordero's oratorical crusade against corruption in government produced a public outcry that led to the resignation of several high-level officials. [REDACTED]

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### Prospects for the New Administration

In our view, Febres-Cordero probably will cope with the expected political and economic challenges well enough to consolidate further Ecuador's fledgling democracy. Although his conservative ideology is likely to lead to some increased political polarization, we believe his substantial backing among the military and business community, coupled with his popular support, will serve to keep strikes and protest activity at controllable levels during his first year in office.

[REDACTED]

To accomplish his principal economic policy objectives, especially reducing the budget deficit, Febres-Cordero will have to trim the bloated state bureaucracy, increase gasoline prices, and eliminate food subsidies—all politically sensitive measures capable of provoking general strikes and civil disturbances. Economic concessions, such as wage increases, that would mute some of this reaction against austerity would probably spark a negative response from foreign creditors.

[REDACTED]

The President intends to act promptly on economic issues in order to capitalize on the current honeymoon period with lenders before his political opponents and labor can marshal their forces to oppose austerity. Given scarce foreign exchange reserves resulting from a continuing slump in the oil market, efforts to gain new lending as well as debt refinancing will be contingent on the new President's ability to reach and maintain an agreement with the IMF. Although we expect such an accord to be signed this fall, we judge that, at least during his first two years in office, Febres-Cordero will have continuing trouble meeting debt payments, keeping Ecuador in compliance with IMF performance criteria, and paying for imports to reactivate the industrial sector.

[REDACTED]

The new President probably will use several approaches in dealing with the recalcitrant labor movement. Aside from his legal authority over labor, he is likely to exploit his personal links to several important

union officials. Moreover, his influence with businessmen, who have successfully co-opted several powerful unions in the coastal area, could help manage unruly workers. Finally, we expect Febres-Cordero to use populist tactics—including low-cost subsidized housing and job creation programs—to offset potential labor discontent. Overall, we believe that by mixing legal sanctions, political patronage, and promises of benefits, Febres-Cordero will be able to keep labor unrest under control for at least the first year of his term.

[REDACTED]

The President probably also will withstand the pressures from the political left, in our view. The US Embassy reports that the newly formed leftist legislative alliance unites a number of traditional enemies, who may well end up fighting each other instead of Febres-Cordero. The President's conservative coalition in the Congress also may be able to increase its strength through an alliance with the delegates of two coastal populist parties, many of whose constituents voted for Febres-Cordero. Failing that, he may be able to override or get around much congressional opposition because of infrequent congressional sessions, substantial executive statutory authority, and powers of political patronage. Finally, Febres-Cordero's appeal to large numbers of voters in poorer neighborhoods may allow him to take advantage of a longstanding conservative populist tradition among the lower classes and thereby offset the left's proselytizing.

[REDACTED]

We believe that nascent terrorism is unlikely to pose a direct threat in the near future either to Febres-Cordero's administration or Ecuadorean democracy in general. Neither the AVC nor the PSRE at present have the resources to sustain a widespread insurgency. Nonetheless, they are capable of mounting a terrorist campaign that, if coupled with labor unrest, could raise public and armed forces anxiety and damage the administration's credibility. Moreover, some Ecuadoreans have publicly expressed concern that a conservative administration will swell the pool of alienated youth and leftists that terrorist groups draw on for recruits. We expect that, if such a process occurs, it will build slowly.

[REDACTED]

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**Implications for the United States**

We believe the new President will follow a moderate course in foreign affairs. He has indicated privately to US officials—and reiterated publicly—that he will promote improved relations with the United States. In a recent discussion with the US Ambassador, newly appointed Foreign Minister Teran said he would review Ecuador's voting record in international organizations with a view toward making it more supportive of Washington's positions. [redacted]

[redacted] Quito's new position on the Latin American debt problem will emphasize the need for individual nations to adopt tough, internal measures to resolve their economic problems and to cease blaming the industrialized countries for the current situation. Teran also promised that the Febres-Cordero administration would be less identified with the Nonaligned Movement, more involved in antinarcotics efforts, and amenable to seeking practical solutions to the bilateral tuna problem. [redacted]

In return, Ecuador will expect increased economic aid and strong US support for its positions in debt negotiations with the international banks. In addition, to help counter the growing domestic terrorist threat, government officials have made it known that they will look to the United States for help in strengthening the counterinsurgency and intelligence capabilities of Ecuador's armed forces. [redacted]

Nevertheless, future relations with Ecuador will not be entirely trouble free. Bilateral trade will continue to be adversely affected by the slack Ecuadorean economy. US exports to Ecuador shrank to about \$570 million last year—a return to 1977 levels—and are likely to remain depressed this year. In our judgment, if the nationalistic President is disappointed with his treatment by international lenders, he probably will be willing to cooperate more closely on debt issues with some of the more aggressive Latin countries, such as Argentina. Similarly, in foreign affairs, Febres-Cordero's basically pro-US orientation will not outweigh his need to maintain good relations with the rest of Latin America. For example, despite his sympathy with the US approach toward Central America, the new foreign minister already has stated that Quito will avoid publicly taking sides regarding the conflict. [redacted]

The US Embassy notes that notwithstanding Febres-Cordero's occasional incendiary references to the unsettled border dispute with Peru, he is unlikely to engage in any revanchist moves or military adventures. Cognizant that Ecuador is inferior militarily to Peru, Febres-Cordero probably will continue the present policy—favored by senior civilian and military officials—of trying to reduce tensions with Lima through continuing dialogue. According to the US Embassy, the new President appreciates past US assistance in keeping the border problem under control and hopes Washington will continue with this policy in the future. [redacted]

Finally, Febres-Cordero has pledged to maintain ties with any country that refrains from interfering in Ecuadorean politics. This, together with his desire to avoid providing his opponents on the left with a unifying issue, makes it unlikely, in our judgment, that he will unilaterally reverse his predecessor's restoration of full diplomatic ties with Havana. If terrorist activities escalate and Cuban complicity can be proven, however, we would expect him to act decisively by downgrading or breaking relations. [redacted]

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